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Viewing cable 06SOFIA1560, B-A OIL PIPELINE: SIGNS OF PROGRESS; BULGARIA AND

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06SOFIA1560	2006-11-14 10:04	2011-08-30 01:44	CONFIDENTIAL	Embassy Sofia

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C O N F I D E N T I A L SECTION 01 OF 02 SOFIA 001560

SIPDIS

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E.O. 12958: DECL: 11/07/2016

TAGS: [ECON](#) [ENRG](#) [PGOV](#) [RU](#) [BU](#)

SUBJECT: B-A OIL PIPELINE: SIGNS OF PROGRESS; BULGARIA AND
GREECE SEEK CHEVRON PARTICIPATION

REF: SOFIA 1481

11. (C) SUMMARY Greek and Bulgarian officials described to EUR DAS Matt Bryza progress on the Burgas-Alexandropoulis (B-A) oil pipeline during his November 3 visit to Sofia. The Greek consortium plans to transfer most of its shares to international private sector participants, including Chevron, and the Bulgarians will likely follow suit. In addition, the pipeline's legal headquarters will be in Luxembourg, which creates a much more international project than the previous perception of a solely Russian-controlled venture. The Bulgarians and Greeks eagerly seek Chevron's participation, and the active involvement of the USG. END SUMMARY

12. (C) EUR DAS Matt Bryza and Ambassador Beyrle met in Sofia on November 3 with President Parvanov, PM Stanishev, Minister of Economy and Energy Ovcharov, Minister of Regional Development Gagauzov, Greek Minister of Economic Development Sioufas and Turkish Minister of Energy Guler, to discuss regional energy issues, including the Burgas-Alexandropoulis oil pipeline.

B-A MOVING AHEAD WITH PRIVATE PARTNERS

13. (C) The B-A pipeline is making progress in key areas, despite the lack of an overall political agreement between the three parties - Russia, Greece and Bulgaria. Greek Minister of Economic Development (including energy) Sioufas who was coincidentally in Sofia, was keen to tell Bryza that the pipeline will be an international one, not Russian, whose legal headquarters will be in Luxembourg and therefore subject to EU law and regulation. Sioufas also described forward motion on the Greek consortium for B-A, where private companies will assume the majority of the Greek share of the three-country project, which means private funding as well as additional expertise and pressure on politicians to make it happen. Bulgaria will likely follow the Greek model and apportion equal shares to private companies Chevron and TNK-BP, and Kazakhstani state oil company Kazmunaigaz. Since the Bulgarian public is sensitive to foreign ownership, the Greek model could give the GOB cover, said Gagauzov. The three countries plan to establish the international project company by the end of the year.

14. (C) President Parvanov confirmed that in the September 4 meeting in Athens, President Putin had explicitly endorsed "broad participation" in the B-A project, which all present clearly understood as a green light for foreign players like Chevron or TNK-BP to take part in the deal on the Greek and Bulgarian sides. Sioufas suggested Bulgaria should engage in separate talks with Chevron, TNK-BP and Kazmunaigaz - something Bulgaria is anxious to do. Bulgarian Minister of Regional Development Gagauzov requested USG help in setting up a meeting for the GOB with Chevron's London and Moscow teams. Sioufas was eager for Bryza and Beyrle to convey to Chevron the progress to date and Greece's willingness to work out specifics. President Parvanov called for increased U.S. presence in the B-A project, saying that without U.S. government intervention and support, the project will suffer more delays. Bryza stressed that private companies must take the lead in determining the commercial viability of the project, but offered to cooperate with both Chevron and the GOB to help the parties advance their own discussions.

15. (C) Russia's desire for its state oil pipeline monopoly, Transneft, to operate the pipeline raised concerns among the Greek and Bulgarian officials. Bryza asked how Greece and Bulgaria planned to protect their national interests if Russian state-owned oil companies acquire majority ownership shares of the project and Transneft becomes the pipeline operator. Sioufas replied that Greece and Bulgaria would insist that companies from their countries be sub-contractors and that minority rights be guaranteed, and that international oil companies (like Chevron) provide the oil throughput required to secure financing. Sioufas also said Bulgarian and Greek companies might be co-operators of the

pipeline, along with Transneft. Bulgarian officials indicated that the GOB will ensure its rights are protected by setting up international partners for the Universal Terminal Burgas (UTB), while maintaining some GOB and ownership of the terminal, said Gagauzov, whose ministry is officially in charge of Bulgaria's pipeline activities. Bryza picked up on this international theme and described B-A as a potential example of Western companies, NATO and EU member states, and Russia working together on a major energy project, provided that Bulgaria and Greece structured the

SOFIA 00001560 002.3 OF 002

deal appropriately.

16. (C) PM Stanishev relayed his frustration that regional energy projects took so long to develop. He pointed to the ten-year AMBO discussions which have led nowhere, but felt both AMBO and the Belene nuclear project must be pursued in order to keep options open for Bulgaria's overall energy security. He also mentioned that Bulgaria wanted to maintain control over the UTB (pumping station) in order to provide flexibility to build a second oil pipeline in the future and to keep some control in their own hands. Ambassador Beyrle stressed that these hands need to be transparent ones. Bulgaria will seek funding from the World Bank and others for the UTB.

TURKEY LOOKING FOR U.S. SUPPORT FOR SAMSUN-CEYAN

17. (C) Guler made a strong pitch for U.S. involvement on the Samsun-Ceyan (S-C) oil pipeline, which would compete with Burgas-Alexandroupolis for the next major increment of Caspian oil that will be shipped around the Turkish Straits. At one point, Guler asked Bryza directly if the U.S. "affirmatively supported" S-C. He described the pros of the route as having no environmental concerns, unlike the B-A route, and the existence of a harbor in Ceyan vs. the lack of harbors or loading/unloading facilities in Burgas and Alexandroupolis. Guler questioned whether it would be feasible for the USG to "sponsor" both pipelines, and clearly pressed Bryza in favor of S-C, pointing to Turkish experience with BTC. Bryza reiterated what he has told Guler many times in the past, namely, that the U.S. believes commercial considerations will determine whether B-A or S-C is built first, that the U.S. wishes the GOT and other developers of S-C success in proving the project's commercial viability, and that eventually, there might be sufficient Caspian oil available to realize both projects.

AMBO

18. (C) Some GOB officials feel the AMBO project (Burgas to Vlore, Albania via Macedonia) is a step ahead of B-A in organizational planning, with routes mapped out and a fund-raising plan. But the GOB does not see any chances of immediate progress without attention from the big oil companies that can provide the throughput required to secure financing. Gagauzov, whose ministry supports both B-A and AMBO, does not feel it is feasible to have both pipelines starting at the same time, but thinks they could co-exist in the future.

BELENE

19. (C) Bulgaria decided to go with the Russian Atomstroyexport bid, PM Stanishev said, because their design is newer, which he equated with being more secure. Stanishev also pointed to "great interest" from France on the Framatome (Siemens/Areva) Instrumentation and Control portion of the Russian bid, and stressed the need for German and French support for EU licensing reasons. He also mentioned Russian pressure "behind the scenes." When Amb. Beyrle pitched Westinghouse's proven track record and better prices, the PM said the GOB was considering how to combine the two competing bids, and said Minister Ovcharov was trying to include as many partners as possible. Stanishev was aware of

Westinghouse's good works at Kozloduy Nuclear Power Plant. In a nod to the controversy swirling around Bulgaria's agreement to close four of six reactors at Kozloduy in order to enter the EU, Parvanov noted that Bulgaria makes up for around 50 percent of the electricity shortage in the region, but will only have enough for its own use once Kozloduy units 3 and 4 are closed on December 31.

COMMENT

¶10. (C) It is clear that Bulgaria and Greece, separately and together, are trying to come up with practical solutions to make the B-A pipeline work. We take it as a step toward commercial viability that the Bulgarian and Greek Governments are now planning to sell their shares in B-A to private investors, and to ensure that the venture will be subject to European laws and regulations. Now might be a good time for Chevron to reach out to the Governments of Bulgaria and Greece, and for the USG - in Washington, Brussels and the three capitals - to prepare for active diplomacy aimed at aligning our geo-political interests with commercial realities.

This cable was cleared with DAS Bryza.
BEYRLE